

**REPORT OF THE AUDIT OF THE  
BRACKEN COUNTY  
CLERK**

**For The Year Ended  
December 31, 2010**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE BRACKEN COUNTY CLERK**

**For The Year Ended  
December 31, 2010**

The Auditor of Public Accounts has completed the Bracken County Clerk's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$35,314 from the prior year, resulting in excess fees of \$69,321 as of December 31, 2010. Revenues increased by \$120,351 from the prior year and expenditures increased by \$85,037.

#### **Report Comments:**

- 2010-01 The County Clerk's Office Has A Deficit Of \$738 For Calendar Year 2010
- 2010-02 The County Clerk Did Not Deposit Funds Intact On A Daily Basis And Did Not Have Proper Controls Over Receipts

#### **Deposits:**

The County Clerk's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Earl Bush, Bracken County Judge/Executive  
The Honorable Rae Jean Poe, Bracken County Clerk  
Members of the Bracken County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Bracken County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.



The Honorable Earl Bush, Bracken County Judge/Executive  
The Honorable Rae Jean Poe, Bracken County Clerk  
Members of the Bracken County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 9, 2011 on our consideration of the Bracken County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2010-01 The County Clerk's Office Has A Deficit Of \$738 For Calendar Year 2010
- 2010-02 The County Clerk Did Not Deposit Funds Intact On A Daily Basis And Did Not Have Proper Controls Over Receipts

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Bracken County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

June 9, 2011



BRACKEN COUNTY  
RAE JEAN POE, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

State Revenue Supplement		\$	61,845
State Fees For Services			4,056
Fiscal Court			4,079
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	270,562	
Usage Tax		525,628	
Tangible Personal Property Tax		593,453	
Liens		5,666	
Other-			
Fish and Game Licenses		6,753	
Marriage Licenses		2,236	
Deed Transfer Tax		13,787	
Delinquent Tax		66,963	1,485,048
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		5,494	
Real Estate Mortgages		12,899	
Chattel Mortgages and Financing Statements		22,902	
Affordable Housing Trust		8,622	
All Other Recordings		10,629	
Charges for Other Services-			
Vehicle Transfer Records		7,756	
Candidate Filing Fees		1,840	
Copywork		1,971	72,113
Other:			
Miscellaneous		1,144	
Refunds		384	1,528
Interest Earned			110
Total Revenues			1,628,779

The accompanying notes are an integral part of this financial statement.

BRACKEN COUNTY  
RAE JEAN POE, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2010  
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 186,816

Usage Tax 509,859

Tangible Personal Property Tax 205,761

Licenses, Taxes, and Fees-

Fish and Game Licenses 6,603

Delinquent Tax 4,897

Legal Process Tax 7,463

Affordable Housing Trust 8,622 \$ 930,021

Payments to Fiscal Court:

Tangible Personal Property Tax 74,395

Delinquent Tax 16,137

Deed Transfer Tax 13,098 103,630

Payments to Other Districts:

Tangible Personal Property Tax 290,040

Delinquent Tax 25,893 315,933

Payments to Sheriff 5,967

Payments to County Attorney 8,993

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 89,717

Materials and Supplies-

Office Supplies 9,734

Other Charges-

Conventions and Travel 990

Refunds 98

Postage 3,899

Office Cleaning 690

Miscellaneous 1,880 107,008

The accompanying notes are an integral part of this financial statement.

BRACKEN COUNTY  
 RAE JEAN POE, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Capital Outlay-			
Copier Lease	\$	4,467	
Hardware and Software Maintenance		7,056	
Delinquent Tax System		<u>2,115</u>	\$ <u>13,638</u>
Total Expenditures			<u>\$ 1,485,190</u>
Net Revenues			143,589
Less: Statutory Maximum			<u>70,668</u>
Excess Fees			72,921
Less: Expense Allowance			<u>3,600</u>
Training Incentive Benefit			
Excess Fees Due County for 2010			69,321
Payments to Fiscal Court - February 22, 2010			<u>65,000</u>
Balance Due Fiscal Court at Completion of Audit *			<u><u>\$ 4,321</u></u>

\* The County Clerk paid \$3,583 to the fiscal court on June 27, 2011.

BRACKEN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BRACKEN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2010  
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Bracken County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Bracken County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

BRACKEN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2010  
(Continued)

Note 4. Lease Agreements

A. Software Management Computer Hardware and Software

On November 16, 2007, the County Clerk's office entered into a lease agreement with Software Management, Inc. for computer hardware and software. The agreement requires 60 monthly payments of \$588 through November 15, 2012, at which time the agreement can be automatically renewed in one-year increments. As of December 31, 2010 the total outstanding is \$11,760.

B. Copier Lease

On July 1, 2009, the County Clerk's office entered into a lease agreement with Modern Office Methods for a copier. The agreement requires 60 monthly payments of \$364 through June 30, 2014. As of December 31, 2010 the total outstanding is \$15,279.

C. Delinquent Tax System

The County Clerk's office is has entered into a lease agreement with Data Design, Inc. for use of a delinquent tax system. The agreement requires a yearly payment of \$1,800. The agreement can be renewed on an annual basis. The County Clerk's office is in compliance with the terms of the lease agreement.

BRACKEN COUNTY  
RAE JEAN POE, COUNTY CLERK  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2010

Assets

Cash in Bank	\$ 114,778
NSF Checks Collected	<u>472</u>
Total Assets	<u>115,250</u>

Liabilities

Paid Obligations:

Outstanding Checks	\$ (46,667)
Bracken County Fiscal Court - Excess Fees 2010	<u>(65,000)</u>

Total Paid Obligations (111,667)

Unpaid Obligations:

Bracken County Fiscal Court - Excess Fees 2010 *	<u>(4,321)</u>
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Total Liabilities (115,988)

Total Fund Deficit as of December 31, 2010 \$ (738)

\* The County Clerk paid \$3,583 to the fiscal court on June 27, 2011.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Earl Bush, Bracken County Judge/Executive  
The Honorable Rae Jean Poe, Bracken County Clerk  
Members of the Bracken County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Bracken County Clerk for the year ended December 31, 2010, and have issued our report thereon dated June 9, 2011. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bracken County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2010-02 to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bracken County Clerk's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2010-01.

The Bracken County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Bracken County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, cursive script.

Crit Luallen  
Auditor of Public Accounts

June 9, 2011

## COMMENTS AND RECOMMENDATIONS



BRACKEN COUNTY  
RAE JEAN POE, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2010

STATE LAWS AND REGULATIONS:

2010-01 The County Clerk's Office Has A Deficit Of \$738 For Calendar Year 2010

In March 2011, the County Clerk contacted the Auditor of Public Accounts (APA) regarding possible fraud she had found within her office. The APA investigated the County Clerk's concerns and it was determined there were 33 receipts totaling \$738 that were unaccounted for and undeposited for calendar year 2010.

The County Clerk's financial statement indicates excess fees of \$69,321. The County Clerk paid \$65,000 to fiscal court on February 22, 2011. Additional excess fees of \$4,321 are owed to fiscal court, however, there is only \$3,583 remaining in the bank, resulting in a \$738 deficit. This deficit is caused by the 33 missing receipts.

We are referring this finding to the appropriate authorities. We recommend the County Clerk work with authorities to resolve this matter and pursue recovery of the \$738. When the \$738 is recovered, it should be remitted to fiscal Court as remaining excess fees for calendar year 2010.

*County Clerk's Response: I understand.*

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-02 The County Clerk Did Not Deposit Funds Intact On A Daily Basis And Did Not Have Proper Controls Over Receipts

Audit testing over daily receipts revealed that deposits were not being made timely and intact. When lien fees are collected, the customer is given a receipt, but the cash or check and the duplicate receipt are attached to the lien and set aside to be deposited after the lien is actually recorded. Sometimes the recording occurred the next day, but frequently the liens were not recorded until days later. Therefore, lien fees are not being deposited on the day they are collected. This practice left lien fee receipts vulnerable to misappropriation and theft and did result in undeposited receipts.

KRS 68.210 requires county fee officials to make deposits, intact into a federally insured banking institution on a daily basis. Proper controls over receipts include making certain the numerical sequence of daily receipts is accounted for, receipts are batched and included on that day's checkout sheet, and the daily checkout sheet agrees to the ledger and bank deposit. The daily deposit should mirror the actual funds received each day. While the County Clerk's office prepares a daily checkout sheet which agrees to the deposit, it does not include all receipts issued on a given day.

BRACKEN COUNTY  
RAE JEAN POE, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2010  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2010-02 The County Clerk Did Not Deposit Funds Intact On A Daily Basis And Did Not Have  
Proper Controls Over Receipts (Continued)

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We recommend the County Clerk deposit all funds received intact and on a daily basis. Also, we recommend the County Clerk strengthen controls over receipts by accounting for the numerical sequence of daily receipts, batching and including all receipts on that day's checkout sheet, and the agreeing the daily checkout sheet to the ledger and bank deposit.

*County Clerk's Response: I understand.*



